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**Judy Simonson**  
Government Affairs Vice President

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JUL 28 1997

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

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July 28, 1997

Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, NW, Room 222  
Washington, DC 20554

Re: IB Docket 96-261 - International Accounting Rates

Dear Mr. Caton:

Attached hereto is a copy of a letter to be incorporated in the above captioned docket.

Accordingly, an original and two copies of this letter are being submitted to the Secretary of the Federal Communications Commission.

Sincerely,

A handwritten signature in cursive script that reads "Judy Simonson".

Attachment

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY



Robert E. Allen  
Chairman of the Board

32 Avenue of the Americas  
New York, NY 10013-2142  
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February 28, 1997

The Honorable Reed Hundt  
Chairman  
Federal Communications Commission, Room 814  
Washington, D.C. 20055

Dear Chairman Hundt:

Congratulations on the one year anniversary of the Telecommunications Act and thanks for your continuing efforts in opening foreign markets and bringing down international settlement rates. John Zeglis, Gerry Salemme and I appreciated the time you and your staff have given us on domestic and international issues. We are delighted that a final WTO agreement now has been reached that opens global markets while permitting the Commission to prevent distortions to competition in the U.S. market.

As I shared with you, I am concerned about the chart your staff developed showing settlement rates and international price decreases and was surprised that the chart shows international consumers have not benefited from reductions in settlements. I asked my staff to analyze AT&T's data and have attached that analysis for you and your staff to review.

Our data shows that AT&T has lowered its prices by an amount significantly greater than settlement costs have been reduced. Competition in the U.S. market forces our prices to follow these cost adjustments. As explained in the attachment, between 1992 and 1996, AT&T's unit net settlement costs -- which are based on both settlement rates and minutes of imbalance (i.e. outbound settlement minutes minus inbound settlement minutes) -- have declined by \$0.05 per outbound minute, while AT&T's average revenue per minute declined by \$0.14 -- \$0.09 more than our settlement costs. This demonstrates that AT&T's savings in settlement costs are passed on to consumers.

The Commission should therefore proceed in its critical efforts to lower settlement rates in complete confidence that the competitive U.S. marketplace, that the Commission has done so much to encourage, will continue to ensure that consumers receive the full benefits of savings in settlements costs. Just as AT&T's prices have reflected settlement cost reductions received to date, AT&T's prices would decline as settlement costs are further reduced by strong Commission enforcement of the benchmarks.

We would be pleased to discuss these issues further with you or your staff.

Sincerely,

A handwritten signature in black ink, appearing to be 'Bh' followed by a horizontal line.

Attachments

## **AT&T CONSUMERS RECEIVE SAVINGS ABOVE THE SAVINGS IN SETTLEMENT COST REDUCTIONS**

### **ANALYSIS OF SETTLEMENTS AND PRICES: 1992-1996\***

As an initial matter, the chart provided by the FCC contains some erroneous assumptions. Net settlements costs -- not accounting rates -- are the appropriate measure to assess the impact of settlement changes on U.S. carrier pricing. The settlements process involves a "netting" approach whereby the settlement payment for outbound billed minutes is offset by the revenue received from inbound settlement payments. Therefore the impact of high, above cost, settlement rates are incurred only on imbalanced traffic flows. The outbound to inbound traffic ratio is the second critical factor that impacts increases and decreases in U.S. carrier net settlement cost. Focusing only on accounting rate levels and ignoring the outbound/inbound ratio, as reflected in the FCC's chart distorts the view.

Settlement rates that U.S. carriers negotiate have certainly declined over the years. However, the shift in the traffic imbalance between U.S. outbound and inbound minutes has created an increase in the net settlement outpayments. U.S. carriers paid settlements on 55 percent of their U.S. billed traffic in 1995, but only on 48 percent of that traffic in 1992, for example. This is because lower U.S. prices generate greater calling volumes than prices in foreign markets.

AT&T's per minute net settlement costs, which must be recovered, on average, for every one of our U.S. billed minutes, actually declined by only \$0.05 per minute, from \$0.36 in 1992 to \$0.31 in 1996. More importantly, this \$0.05 reduction in AT&T's net settlement costs was fully reflected in our prices, as should be expected in the competitive U.S. market. As the FCC's 43.61 data shows, AT&T's average revenue per minute declined from \$1.04 in 1992 to \$0.90 in 1996 (per data to be filed July, 1997), or by \$0.14, a much greater decrease than the reduction in the effective unit net settlement rate as shown in the attachment. To the extent that unit net settlement costs continue to decline as the result of strong enforcement of new benchmark settlement rates by the Commission, AT&T would expect those savings to be similarly reflected in U.S. carrier prices as dictated by the competitive U.S. market.

Further, as in other competitive industries, price reductions in the U.S. international services market are taken where competition is most intense, and are not strictly tied to route-specific settlement costs. In order to compete effectively, and to price services rationally, AT&T requires the flexibility to take pricing actions in response to competitive pressure and customer demand.

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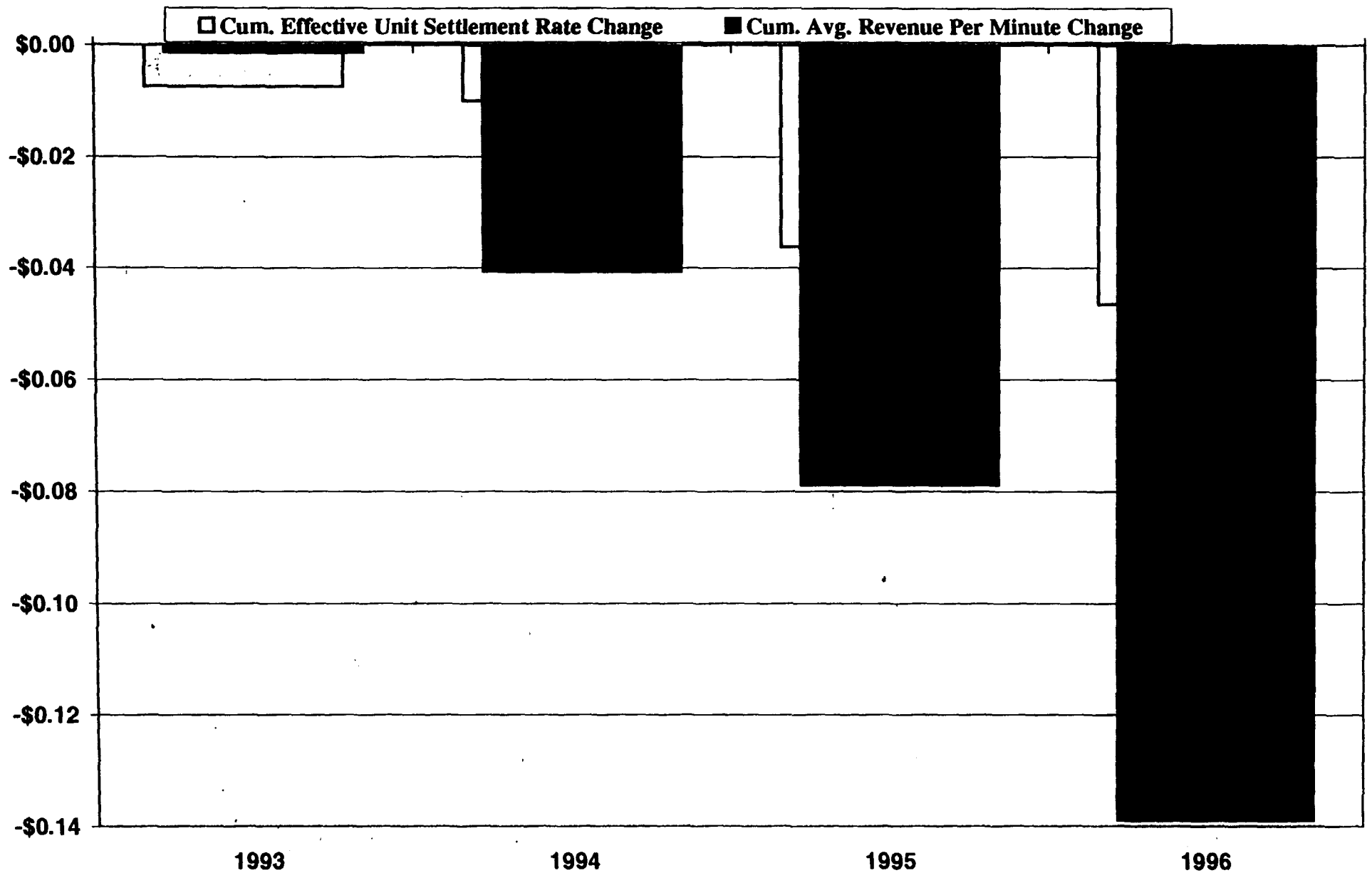
\* 1996 data is based on AT&T's projection of its 43.61 data for that year to be filed July, 1997.

For example, the recently announced AT&T **One Rate International Plan** offers our residential customers new low "anytime" rates to more than 200 countries, including \$0.12 per minute to the U.K. and \$0.35 per minute to most European countries. This new calling plan will provide discounts that are, on average, 31 percent lower than those offered under AT&T's best permanent plans for residential customers in 1996. Yet, many of the countries covered by the AT&T **One Rate International Plan** have not reduced settlement rates to any meaningful extent in recent years. Because of the different factors affecting country pricing, the impact of net settlement cost reductions should be measured globally, rather than on a country-by-country basis.

Moreover, settlement rates are the largest but not the only cost component of international services, and lower settlement rates should not be expected to bring the same percentage reductions in the prices of international calls. The relevant inquiry is rather whether cost savings are reflected in prices on a dollar-for-dollar basis as measured by AT&T's average revenue per minute.

While every U.S. carrier may not pass on net settlement cost savings at the same time or to the same extent, residential consumers are highly price sensitive and will switch carriers in response to lower prices, as the Commission concluded last year in finding AT&T to be non-dominant for international services. As a result, any carrier that fails to reflect net settlement cost savings in its prices, or in commensurate service improvements, will risk the loss of customers to its competitors.

# AT&T CUSTOMERS SAVED 9 CENTS MORE PER MINUTE THAN AT&T COST



# OVERALL AT&T'S PRICES MORE THAN REFLECTED SETTLEMENT COST REDUCTIONS

COST AND PRICE SAVINGS VARY BY COUNTRY & YEAR

